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SUBJECT: UNIONS SHOW THEIR MUSCLE THROUGH RASH OF PLANT OCCUPATIONS

REF: MONTEVIDEO 10

¶1. Summary: Ever since it took office in March 2005, the Frente Amplio administration has engineered a shift in labor relations in favor of workers, starting with the derogation of a decree enabling police to intervene in plant occupations and culminating with the recent passage of the Union Protection Law ("Ley de Fuero Sindical"). The predictable result has been a rash in the number of plant occupations. Recent violent incidents shocked Uruguay's traditionally peaceful population and catalyzed the government's announced intention to regulate occupations. However, the GOU's view of occupations as a natural extension of the right of workers to go on strike"" collides squarely with property rights. It is clear that the pendulum has swung too far in favor of trade unions, and how far the GOU will be able to back-track and how effective regulations will be in controlling the situation will be clear signals to investors, likely to impact on job creation. End Summary.

GOU shifts labor relations in favor of workers

¶2. Since taking office in March 2005, the left-of-center Frente Amplio government has progressively shifted labor relations in favor of workers. Its first action was to derogate a 1966 decree that enabled the employer to request police action to evict occupying workers. The GOU then established mandatory salary councils and finally passed a union protection and promotion law (Reftel). These actions triggered the creation of unions in 383 new firms, a growth in the union affiliation of 31,000 new workers, and a sharp overall deterioration in the climate of labor relations.

Labor situation deteriorates rapidly as occupations soar

¶3. The strengthening of unions --blessed and promoted by the GOU--, led to an eight-fold increase in plant occupations, which rose from an average of 0.8 per month in January/April 2005, to 2.9 in May/December 2005, and to 6.0 in January/mid-February 2006. Several firms, including public ones, were occupied by a minority of workers and against the open opposition of the rest of the staff (Note: In several cases, the majority of workers opposed to the occupation decided to create a competing union within the very same firm. End Note.) The overwhelming majority of occupations have been against Uruguayan firms. While foreign companies have not been targeted, several have been affected, including a dealer

of US-sourced Exxon Mobil/ESSO, an Italian chemical factory, and a Spanish security firm.

Taped violent incidents were the last straw...

¶4. The recent televised transmission of violent incidents at Naussa, a leather tanning factory, shocked Uruguay's traditionally peaceful society. The February 14 evening news showed a violent clash between Naussa's owner --who broke into"" his own plant with a group of employees opposed to the ongoing occupation-- and 18 occupants. The next day, a 300-person crowd led by the union leaders threatened to re-enter the plant by force, at which time, unable to control the situation, the police convinced the owner to leave his factory. The crowd then assaulted the owner and his group of employees as they were exiting the plant and smashed the windshields of three vehicles, while police stood by (Note: The police say that the derogation of the 1966 decree has taken away their only means of intervening in such situations. End Note).

...that prompted the GOU to take action

¶5. The Naussa case may have catalyzed the GOU into action to restrain the rash of occupations, as it realizes that they are getting out of control. However, the GOU views occupations as a ""natural extension of the right to go on strike"", and its intentions are to regulate rather than prohibit them. The GOU is thus reportedly considering the imposition of a three-step process before workers can occupy a plant. It would also rule on specific traits of the occupation (e.g. necessary majorities to decide to occupy and guarantees of appropriate preservation of firms's machinery). The Labor Ministry has announced that the new regulations would be passed within two weeks.

Comment: Collision between occupation and property rights

¶6. It is certainly good news that the GOU, prompted by President Vazquez himself, has decided to take action to control the escalation of occupations. The quality and effectiveness of the new regulations remain to be seen, however. Even if additional stages are imposed to delay an occupation, the alleged ""right to occupy"" will eventually collide with the owner's property rights. The GOU's handling of this delicate issue will have a direct impact on the quality of the investment climate and on job creation. End Comment.

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